



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON
Monday, August 27, 2012
10:00 a.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14th Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 10:00 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Prof. Dennis Hoffman, Vice-Chair
Mr. Mike Smarik

Absent: None.

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the April 16 and April 30, 2012 Public IC

Motion: Mr. Mike Smarik moved the minutes of the April 16 and April 30, 2012 Public IC meetings be adopted. Prof. Hoffman seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding the Cortex Investment Management Program Governance Review and Consultant Utilization Review

Mr. Tom Connelly informed the Committee that this agenda item would be rescheduled due to the Cortex presenter being indisposed.

4. Presentation, Discussion, and Appropriate Action Regarding Proposed Modifications to the ASRS Long Term Disability (LTD) Investment Program

Mr. Paul Matson, Director, provided the a background information as it related to the ASRS LTD program, with assets of approximately \$250 million, which are invested in passive asset class modules held at and managed by Blackrock. Mr. Matson also discussed the funded status of the LTD program, falling contribution rate history, and possible upcoming staff recommendations to the ASRS External Affairs Committee to the structure/plan design of LTD.

Mr. Matson introduced Mr. Gary Dokes, Chief Investment Officer, and Mr. Eric Glass, Portfolio Manager of Commodities. Mr. Dokes provided an overview of the proposed modifications to the ASRS LTD Fund Rebalancing Policy. He said the policy changes are technical in nature and more clearly reflect the activities being performed by the ASRS and BlackRock.

Mr. Glass discussed the ASRS LTD program in more detail (cash flow management, performance, etc.) and stated that investments are held in Blackrock comingled passive asset class modules.

Mr. Connelly made favorable comments on the expenses (fee rates) of the comingled funds.

Prof. Hoffman requested that Mr. Dokes articulate why making the LTD modifications would be beneficial and if the benefit outweighs the additional fees associated with the change in the allocation policy. Mr. Dokes articulated that there will be better risk adjusted returns moving to the new policy allocation and fee increase is minimal. Mr. Matson added that the fee structure has not changed, but the aggregate composition of the weights has changed. Mr. Allan Martin, Consultant, NEPC, further explained that the staff has taken the Plan's long term asset allocation and mapped that into a set of cheaper investment options offered in the LTD plan.

Mr. Matson noted an error on the LTD allocation policy schematics. The policy target range for U.S. Fixed Income should be 11%-31% not 11%-21% as shown.

Mr. Connelly raised the issue of asymmetric policy target ranges and how they differ between asset classes. Mr. Matson concurred that they are non-symmetric and this asymmetry is a result of the research completed on optimizing risk / return tradeoffs that result from deviations from asset class targets.

Motion: Prof. Dennis Hoffman moved that the IC recommend to the ASRS Board the approval of Exhibit 3 - the ASRS LTD Fund Rebalancing Policy - and Exhibit 4 – the ASRS LTD Strategic Asset Allocation Policy - given the provision that the range on the Fixed Income be 11-31%, as a correction from 11-21%. Mr. Smarik seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

5. Presentation, Discussion, and Appropriate Action Regarding the ASRS Strategic Asset Allocation Policy (SAAP) Implementation Update

Mr. Dokes provided background information regarding the approval of the new ASRS SAAP on June 15, 2012. Mr. Dokes explained that discussions and activities between IMD staff and ASRS consultants have occurred regarding the implementation of the SAAP. Selections of specific investments and managers within various classes have and will occur at both the Private Market and Public Market Committees.

Mr. Dokes articulated the current implementation status of each ASRS asset class within the SAAP and their projected implementation timeline, as well as opportunities that exist in the market. Funding of investments will occur in the tactical context of the market.

Mr. Hoffman expressed concerns of the economics of our risk in investing in emerging markets. Mr. Matson requested that Mr. Underwood respond regarding the ASRS exposure in emerging markets. Mr. Underwood clarified that we are not necessarily accessing those emerging markets by deployment, but rather, we are accessing the emerging markets capital markets and driving a return stream. Some of the weight/allocation afforded to those areas (emerging markets) is risk adjusted because of the volatility of those markets and the expectation of the return of those capital markets but not necessarily the return of those economies.

6. Presentation, Discussion, and Appropriate Action Regarding Director's Asset Class Committee Update: Private Markets Committee and Public Markets

Mr. Dokes presented a recap of the Asset Class meetings that had occurred since the April 30, 2012 IC meeting. Mr. Dokes also presented an overview of upcoming asset class meetings.

7. Presentation, Discussion, and Appropriate Action Regarding the Investment Management Division's (IMD) Investment House Views

Mr. Matson provided the Committee with an overview of the House Views while Mr. Dokes provided a verbal update of the current Investment House Views and reiterated that all notable changes in the market metrics or asset class positioning relative to SAA (Strategic Asset Allocation) targets from the previous month are highlighted in red.

Mr. Dokes also mentioned the dynamic nature of the House Views, and how they are a primary determinant of ASRS asset class over/under weightings relative to their respective asset allocation policy benchmarks.

8. Call to the Public

No members of the public requested to speak.

Mr. Connelly requested that future IC meetings contain an agenda item specific to future IC agenda topics.

Mr. Connelly requested that the Trustees be sent, (via email) any insightful market publications. Mr. Matson, Mr. Dokes and Mr. Martin, provided a list of helpful publications to be sent.

9. Adjournment

The meeting adjourned at 11:56 a.m.

Respectfully submitted,

Chasity Byrd, Secretary

Date

Gary Dokes, Chief Investment Officer

Date